

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 579 - SB 874

March 14, 2013

SUMMARY OF BILL: Prohibits registration or renewal of registration of a motor vehicle unless evidence is provided that the applicant meets full requirements of the Tennessee Financial Responsibility Law (FRL). Requires an insurer, upon cancellation or termination of any policy of insurance used as evidence, where no replacement policy is issued, to within five days provide notice to the Commissioner of the Department of Revenue (DOR) and to the insured that, to the insurer's knowledge, the vehicle no longer meets the requirements of FRL and that the registration of such vehicle will automatically terminate in 30 days from the date of such notice unless such requirements are met. Requires the Commissioner of the Department of Safety (DOS), upon withdrawal of any cash deposit or bond used as evidence, to provide such notice to the registrant within five days. Requires that any insurance company that fails to provide the notice remains liable to the extent of the original policy limits for any accident the policy would have covered during the period of validity of the certificate of evidence or until the required notice is provided to the Commissioner, whichever is earlier.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact – \$2,195,800

Decrease Local Revenue – Net Impact – \$5,558,600

Assumptions:

- Based on data provided by DOR, it is reasonably estimated there are approximately 6,650,000 motor vehicles, not including motorized bicycles, registered in Tennessee every year. This number is assumed to remain constant into perpetuity.
- The uninsured motorist rate in Tennessee is estimated to be 24 percent, or 1,596,000 motorists (6,650,000 x 24.0%).
- It is estimated that 60 percent of uninsured motorists, or 957,600 (1,596,000 x 60.0%), will be able to acquire appropriate levels of insurance and will be able to continue renewing their motor vehicle registrations. As a result, there will be a recurring increase in state revenue derived from additional insurance premium taxes as 957,600 individuals acquire insurance.
- Pursuant to Tenn. Code Ann. § 56-4-205(a), the gross premium tax is a 2.5 percent tax on gross insurance premiums. Assuming an average annual premium of \$300 for the

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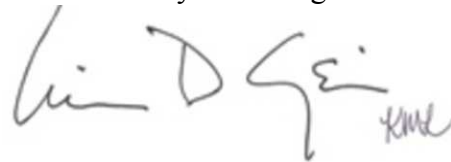
minimum required level of liability insurance, the recurring increase in state gross premium tax revenue is estimated to be \$7,182,000 (957,600 individuals x \$300 annual premium x 2.5% tax).

- Of the remaining 40 percent, or 638,400 (1,596,000 – 957,600), 50 percent, or 319,200 (638,400 x 50.0%), will not be able to acquire or maintain adequate insurance and will not be able to renew or maintain motor vehicle registrations, thus resulting in a recurring decrease in motor vehicle registration fee revenue.
- The average state registration fee among all class codes is estimated to be \$28.50 per vehicle; the average county wheel tax is estimated to be \$28.75 per vehicle.
- The recurring decrease in state revenue attributable to reduced registration fees is estimated to be \$9,097,200 (319,200 x \$28.50).
- The recurring decrease in local government revenue attributable to reduced registration fees is estimated to be \$9,177,000 (319,200 x \$28.75).
- The remaining 50 percent, or 319,200 (638,400 x 50.0%), will acquire insurance for the purpose of initially obtaining motor vehicle registrations, but will subsequently and repeatedly lapse in making premium payments, causing insurance companies to terminate their policies, and subsequently causing DOR to revoke the applicable motor vehicle registrations.
- Fifty percent of such individuals, or 159,600 (319,200 x 50.0%), will lapse in making premium payments during the first year; the remaining 50 percent are assumed to lapse in making premium payments during the second year. These individuals will repeatedly have difficulty maintaining adequate liability insurance, and as a result, will have difficulty maintaining their motor vehicle registrations. However, these individuals will continue to attempt to be in compliance with this law over time. As a result, it is estimated that 159,600 individuals will have their motor vehicle registrations revoked in any given year. It is further assumed that these individuals will subsequently pay appropriate reinstatement fees to reacquire their motor vehicle registrations.
- The reinstatement fee for a motor vehicle registration is estimated to be \$45.00, of which \$22.50 is the state portion and \$22.50 is the local portion.
- The recurring increase in state revenue is estimated to be \$3,591,000 (159,600 x \$22.50); the recurring increase in local government revenue is estimated to be \$3,591,000 (159,600 x \$22.50).
- Of the 638,400 individuals that cannot consistently maintain insurance, approximately five percent, or 31,920 (638,400 x 5.0%), will be cited each year for driving with a revoked motor vehicle registration. These individuals are assumed to incur violations each year under current law for driving without adequate insurance. Seventy percent of these individuals, or 22,344 (31,920 x 70.0%), are cited as first-time offenders; the remaining thirty percent, or 9,386 (31,920 – 22,344) are cited as second-time offenders.
- Given these individuals are not able to consistently maintain adequate insurance, a higher than normal indigent rate is assumed. Forty percent of individuals that incur first-time violations under current law, or 8,938 (22,344 x 40.0%), and fifty percent of individuals that incur second-time violations under current law, or 4,693 (9,386 x 50.0%), are assumed to be indigent and, therefore, will not pay any assessed fines. As a result, approximately 13,406 first-time offenders (22,344 – 8,938), and approximately 4,245 second-time offenders (9,386 – 4,693) will pay their assessed fines under current law.

- Individuals assumed to pay fines under current law are assumed to pay any incremental fines under this bill. The average incremental fine for first-time offenders (for driving with a revoked motor vehicle registration) is estimated to be \$25; the average incremental fine for second-time offenders is estimated to be \$50. The incremental fines estimated are assumed to be the difference between the total fine these individuals will incur under this bill (for driving on a revoked motor vehicle registration and without adequate liability insurance), and the fine these individuals incur under current law (for driving without adequate liability insurance).
- The recurring increase in fine revenue is estimated to be \$547,400 $[(13,406 \times \$25.00) + (4,245 \times \$50.00)]$.
- Local governments are estimated to receive five percent of fine revenue as commission.
- The recurring increase in fine revenue to the state is estimated to be \$520,030 $(\$547,400 \times 95.0\%)$; the recurring increase in fine revenue to the local government is estimated to be \$27,370 $(\$547,400 \times 5.0\%)$.
- The net recurring increase in state revenue is estimated to be \$2,195,830 $(\$7,182,000 - \$9,097,200 + \$3,591,000 + \$520,030)$.
- The net recurring decrease in local government revenue is estimated to be \$5,558,630 $(\$9,177,000 - \$3,591,000 - \$27,370)$.
- Any increase in expenditures for DOR, DOS and the Department of Commerce and Insurance as a result of this bill is estimated to be not significant and can be accommodated within existing resources without an increased appropriation or a reduced reversion.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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